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RR RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV RUEHSR
DE RUEHMD #0336 0891652
ZNR UUUUU ZZH
R 301652Z MAR 09
FM AMEMBASSY MADRID
TO RUEHC/SECSTATE WASHDC 0451
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHLA/AMCONSUL BARCELONA 3921
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS MADRID 000336

SIPDIS
SENSITIVE

STATE FOR EUR/WE, EEB/IFD/OMA
TREASURY FOR OIA/OEE/T.O'KEEFE,D.WRIGHT
COMMERCE FOR 4212/D.CALVERT

E.O. 12958: N/A
TAGS: [EFIN](#) [PGOV](#) [SP](#)
SUBJECT: BANK OF SPAIN TAKES OVER CCM SAVINGS BANK

REF: MADRID 323

1.(U) On Sunday, March 29, the Bank of Spain took over the Caja Castilla La Mancha (CCM) savings bank, with the GOS authorizing a guarantee of up to 9 billion euros to cover any losses. The Caja,s management was replaced by three Bank of Spain officials. A GOS statement asserted that CCM was solvent but faced a temporary liquidity problem. Second Vice President and Economy/Finance Minister Solbes told reporters that CCM had only 1% of financial system assets. He added that no other financial institutions were in similar situations but acknowledged that if liquidity problems continued over the long term, other banks would not be immune. He expected that no more than two or three billion euros of the guarantee would be needed. This is Spain,s first financial institution takeover since 2003 and its largest since 1993. Bank stocks fell Monday morning, though by about the same amount as bank stocks in other European markets.

2.(U) CCM, formed in 1993 from the merger of three cajas, has over a million depositors and 500 branches around the country. At the end of 2008 it had around 20 billion euros of loans outstanding. Run by former ruling party Congressman Juan Pedro Hernandez Molto, it had lent heavily to property developers and had expanded rapidly outside its original region. According to figures it reported to the Bank of Spain, it had a significantly lower capital ratio than other similarly-sized banks and cajas and the second highest rate of loan delinquency.

3.(U) Central Bank intervention became necessary after GOS efforts to encourage a merger between CCM and Unicaja (also linked to the PSOE, but based in the Andalusia region) fell through at the end of last week. A frequently reliable online newspaper reported that Unicaja backed away when CCM,s auditors, Ernst & Young, refused to sign the 2008 accounts that CCM proposed to submit to the Bank of Spain on March 31.

4.(SBU) Comment: In addition to its economic effects, the takeover is likely to be a political black eye for the GOS. Many cajas are controlled by regional or provincial governments and are politicized. Cajas in general are also more exposed than banks to the troubled real estate and construction sectors. CCM,s failure and perceptions that Hernandez Molto,s status as a PSOE insider influenced the GOS, efforts to save it give the opposition PP a counterargument when it faces criticism over the longrunning and unseemly battle between the PP president of Madrid region and Madrid,s PP mayor for control of Caja Madrid (the country,s fourth largest financial institution). Also, coming as it does shortly before the London economic summit, it reduces President Zapatero,s ability to claim that Spain,s cautious banking regulation has kept it safe from

the effects of the financial crisis. In addition, there are unconfirmed reports that last week,s sudden departure of Central Bank Deputy Governor Jose Vinals was related to Vinals, conflict with Governor Miguel Angel Fernandez Ordonez over support for CCM. End Comment.
CHACON